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SUBJECT: QUESTIONABLE BANK LOANS EXPOSE SLOVENIAN  
GOVERNMENT TENSIONS

Classified By: CDA BFreden, reason 1.4(b,d)

#### Summary

1. (C) Dr. Drasko Veselinovic, president of mostly state-owned Nova Ljubljanska Banka (NLB), offered his resignation on April 20, only two months after he took the position. The offer of resignation reflects rising tensions within the governing coalition over NLB's decision to extend the payment period on more than 150 million euros of loans to Lasko Brewery, which some term a "tycoon loan," i.e., a loan based on political connections and personal relationships rather than business considerations. In the Slovenian context, "tycoon" is a label applied to anyone who became rich due in whole or part to political connections, and who belongs to a party other than one's own. The bank's supervisory board will decide whether to accept Veselinovic's resignation by next week. The strains of the discussions and arguments within the government are increasing pressure on the Ministers of Economy and Finance; with the Minister of Economy, who opposes the tycoon loans, threatening to resign. End summary.

#### NLB Situation a Symptom of Political Illness

2. (SBU) Opinions differ on the root cause and ultimate outcome of the controversy. There is a general consensus that the controversy stems from NLB agreeing to extend loans decried as "tycoon loans," whereas the government's recent loan guarantee, enacted to combat the global economic crisis, is supposedly aimed at loans for "developmental purposes." The NLB case exemplifies the mix of state and private sector in the Slovenian economy. Bosko Srot, the president of state-controlled Lasko's managing board, is one of Slovenia's most influential businessmen. Lasko itself is far more than a brewery; its holdings include Mercator, Slovenia's largest retail chain, as well as a number of other assets that make it one of Slovenia's largest company. Other observers see Veselinovic's resignation as a lost opportunity: he is an experienced banker but is not from the same group of high-level bank officials connected to the former ruling party LDS who have controlled NLB since the early 1990s, and his appointment was hailed in February as a badly-needed breath of fresh air for the bank.

3. (C) A Vice President of the NLB Supervisory Board lamented the chaos to Emboffs, wishing that he had resigned from the board before all this happened. (The previous government appointed the supervisory board, whose term concludes in June.) He worried that these events will likely cause a step backwards in the progress of bank privatization and agreed that the case illustrates how large a stake the state still has in the banking sector. He noted, however, that the government's interests did not totally align with the shareholders and faulted Veselinovic for explaining that the loans were in the interests of "Slovenia," rather than for the bank and its shareholders. He expressed concern that the

bank would make future decisions based on political and not economic reasons.

¶4. (C) The Board member also defended the Bank. He explained that the bank could not base its decision on the political designation of whether a loan was a "tycoon loan" or a "development loan" in deciding whether to extend the credit, but needed to make that decision on business grounds. He asserted that NLB is more conservative than other Slovenian banks, and carries a smaller percentage of bad portfolios. But, he said, the difference is that the media does not want to discuss the situations in other banks; he speculated that the media is focused on NLB for political reasons.

¶5. (C) After details of the loan extension were released on April 17, Zares Party President (and Minister of Higher Education) Gregor Golobic also criticized the bank and the government for allowing the decision to go forward. Some commentators see the move as Golobic's revenge for not having had more say in the appointment of Veselinovic as NLB president, since Veselinovic is a member of the LDS party (both LDS and Zares are members of the coalition). April 21 headlines announced that LDS Party President (and Interior Minister) Katarina Kresal told Golobic to "stop playing games and get to work." Her comment came after press reports described how her husband's law firm represents Lasko Brewery and how the company has used political connections and appeals to the "national interest" in order to secure loans and other government aid. Others point to recent public opinion polls showing rising dissatisfaction with Zares as the motivation for Golobic's statements, as he is hoping that his "anti-tycoon" rhetoric can halt the slide before the June European Parliament elections.

Comment

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¶6. (C) In our opinion, this brouhaha is distracting the government from focusing on the underlying problems caused by the global economic crisis. However, we expect that the coalition parties, which have been meeting frequently this week, will continue to exert their influence over the bank. More troubling in the long term would be a move by the new government to reverse gains made in privatization.  
FREDEN